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Second country cooperation framework for Peru (2001-2003)

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Introduction

1. In preparing this document on the country cooperation framework for Peru (2001-2003), consideration was given to approaches of the national development policy currently under discussion and processes already under way which are expected to continue when the new Government takes office on 28 July 2001.

I. Development situation from a sustainable human development perspective

2. Over the past five decades, Peru has undergone radical changes in the orientation of its economic model. In the 1950s, this model was based on the export of raw materials, a free market and a minimal entrepreneurial role for the State; large sectors of the population were socially marginalized. In the 1960s, an import-substitution model based on private enterprise was promoted but did not have any great impact on employment or exports. In the 1970s, the military Government (1968-1980) promoted a socialized, State-run economic model, based on a high level of public investment, the introduction of social reforms and the nationalization of large corporations and public services. However, income and employment levels did not increase significantly and the problems caused by parallel or unstructured (informal) economic activities and the proliferation of both inner-city slums and those on the outskirts of cities grew worse.

3. When democracy was restored in the 1980s, the pressure of the external debt and the problems of an economy with a strong State presence triggered, inter alia, growing inflationary pressures and recessionary trends. Moreover, 1980 marked the beginning of the terrorist phenomenon. In the second half of the 1980s, within the context of the international crisis, recessionary trends grew worse, hyperinflation pushed up prices by 7.650 per cent and the country stopped paying its external debts and became cut off from the international financial system. In that period, terrorism caused over 25,000 deaths and losses totalling over US$ 25 billion.

4. The 1990s saw the launching of an economic adjustment plan and structural reforms with the basic objective of steering the country towards a market economy and reducing the State's entrepreneurial role under a large-scale privatization programme. In September 2000, in the wake of a political crisis which had erupted in the second half of that year, the incumbent President of Peru called general elections for April 2001.

5. In November 2000, in accordance with the provisions of the Constitution, the new President of the Congress provisionally assumed the Presidency of the Republic, heading the transition Government which organized the general elections, in which no candidate obtained a majority; a second round of voting was called for June 2001. The transition Government stressed the importance of transparency in the elections, sound economic management and the moral integrity of the State apparatus.

6. The main indicators of the country's situation as at May 2001 showed annual inflation at under 5 per cent and international reserves in excess of $8 billion. However, as a result of the recession of recent years, average annual growth in the gross domestic product (1998-2000) was barely 1.5 per cent. In such circumstances, poverty affected 45 per cent of a total population of 25.7 million inhabitants; 15 per cent of the population is in a situation of extreme poverty. Moreover, high levels of underemployment (43.5 per cent) and unemployment (7.7 per cent) were registered.

7. In late 2000, the per capita gross domestic product was US$ 1,263 (at 1986 prices). While it was higher than it had been in 1990 ($968), it was still less than the record figure of $1,327 posted in 1982. It should be noted that the human development index (HDI) nonetheless improved by 16.1 per cent over 1990.

8. As a defence against the current crisis, Peru has a tourism industry and natural and cultural resources, in addition to its characteristic biological diversity — it has 84 of a total of 108 biotopes in the world — in other words, a treasure of fauna and flora unique to the entire planet.

9. Possibly the greatest challenge that the Government elected in June 2001 will have to face in the coming years will be to meet the population's expectations, mainly with regard to creating jobs, upgrading basic services and decentralizing the administration. The Government may have to focus special attention on combining appropriate short-term economic management with the modernization of State

management, within the framework of a long-term approach aimed at consolidating economic recovery and overcoming the situation of poverty in which many Peruvians live.

II. Results and lessons of past cooperation

10. During the first country cooperation framework for Peru (1997-2000), UNDP administered a total of $303.1 million, of which $3.1 million were its own resources and $300 million were UNDP-administered resources from third parties. In the period 1997-2000, UNDP provided technical assistance to various processes for the modernization and downsizing of the State, including support to the execution of the privatization programme; the promotion of development along the northern border in support of the Peru-Ecuador Peace Accord; expanded coverage by the Ombudsman's Office; the implementation of the programme for the return of those displaced by subversive violence; the launching of environmental measures; technical assistance to deal with the emergency situation caused by the El Niño phenomenon; and the formulation of a sustainable cities plan to be applied in cases of disaster. UNDP action promoted public-sector management capacity. It should be noted that, with the exception of actions relating to the El Niño phenomenon, which was an unforeseen occurrence, all the other activities were included in the first country cooperation framework.

11. In the special economic situation which prevailed in the final months of 2000 — which required national action in order to overcome the political crisis and call new elections — UNDP worked with the transition Government and supported governmental action to hold impartial general elections; launch the investigation and prosecution of acts of corruption; lay the groundwork for a reorganization of the judiciary; lay the groundwork for civilian-military dialogue; launch the large-scale dissemination of information on public management; and support the implementation of mechanisms to promote the participation of civil society in the formulation and evaluation of social programmes. Moreover, UNDP continued to support the various sectoral projects being carried out under the 1997-2000 country cooperation framework, which the transition Government decided to continue.

12. UNDP cooperation in recent months has helped strengthen governance and democracy, while continuing to support traditional development tasks which had been in progress for a number of years. UNDP is currently elaborating baseline studies for the purpose of preparing the national human development report, which is expected to serve as a vital reference for the formulation and monitoring of the national development policy.

III. Objectives, programming areas and expected results

13. In the period 2001-2003, UNDP will have to support the process of democratic consolidation, economic recovery and improvement of the quality of life of the country's poorest groups. In this regard, UNDP is prepared to provide specialized advisory services and to work on the implementation of the programmes and projects aimed at achieving these objectives.

14. The UNDP Office attaches the utmost importance to the establishment, in the next few years, of closer ties of communication between the Government and civil society at all levels — political, academic and grass-roots organizations — in order to strengthen the country's conditions of governance. While, in the period 1992-1996, UNDP actions were focused on short-term programmes to restructure the economy, and during the period 1997-2000, on consolidation of structural changes, during the period 2001-2003, UNDP will attach special importance to consolidating governance, increasing civic participation in public management and accountability and promoting measures to overcome the situation of poverty which still affects a large proportion of Peru's population.

15. UNDP will work with the Government to prepare specific documents, policy proposals and projects connected with the international agreements Peru has signed, including the World Summit for Social Development, the Fourth World Conference on Women and the United Nations Conference on Environment and Development.

16. UNDP intends to maximize its advantages as a neutral cooperation agency and coordinator of the United Nations system with the capacity to attract supplementary resources to finance projects that have been proposed or are already under way. UNDP will

accord particular attention to Peru's current economic situation, to the structural factors which define it and to the need to accelerate the implementation of innovative or corrective action required to advance Peru's development, including the utilization of such resources as "seed capital". In its advisory capacity, UNDP will promote the incorporation of the concept of sustainable human development and will take into account the need to strengthen conditions for enhancing governance. It will also support the concept of the State as promoter, based on the concept of "government assets", in which government expenditure creates opportunities for new private-sector investments. As a complement, UNDP will support studies to determine the country's potential capacities.

17. UNDP is also prepared to help secure financial resources for new programmes and projects. Just as in previous periods, UNDP will work with the Government to enhance the coordination of external cooperation. The functioning of the resident coordinator system will also be strengthened through coordinated actions with the agencies of the United Nations system, the World Bank, the Inter-American Development Bank, the Andean Development Corporation and other international donors, at the level of both central planning and coordination and specific cooperation with other donors and United Nations agencies on UNDP-supported programmes and projects.

18. With regard to operational and administrative aspects, the UNDP Office in Peru is prepared to strengthen its technical and analytical capacity and to review its procedures periodically with a view to building its advisory capacity in the areas of governance and development and streamlining administrative aspects in order to expedite the implementation of its projects, while maintaining the requisite follow-up, monitoring and record-keeping in respect of used resources.

19. *Programming areas.* UNDP will work with the Government elected in June 2001 in the following areas: (a) democratic governance; (b) poverty eradication; (c) energy and environment; (d) information and communication technologies; (e) preventive measures against factors which are a threat to society, including natural disasters and human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS). The specific features of each programming area are as follows:

20. *Democratic governance.* With a view to consolidating governance, UNDP will support actions to increase the level of democratic participation by various sectors of society and by social agents. In this context, decentralization of government management will be promoted by gradually strengthening the technical and administrative capacity of local governments and encouraging the participation of the private sector in the development of the country's interior. Support will also be provided to the modernization and strengthening of the multiparty representative system with a view to bolstering democracy. The conclusion of agreements between the Government and social agents on macroeconomic policy goals as well as sectoral, social and environmental goals will be encouraged. Support will also be given to the modernization of public management in the executive and judicial branches, and of the electoral system. Additionally, UNDP will continue to support projects designed to modernize state management at the sectoral level; complete the privatization processes currently under way; and consolidate technical and administrative structures for combating corruption. UNDP must help raise funds from other international agencies and ensure their prompt application to projects to strengthen democratic governance.

21. *Poverty eradication.* UNDP will support the establishment of mechanisms for the participation of those interested in the design, execution and evaluation of social programmes. It will also support the design and implementation of programmes to support micro-business and small business, including special programmes for female and youth entrepreneurs. UNDP will elaborate, and promote the use of, technical tools for better programming. In this connection, beginning in 2002, the human development index (HDI) for the Peruvian provinces will be debated and disseminated at the national level, and its utilization as a statistical benchmark in public policy-making will be promoted. UNDP will also support private-sector participation in social responsibility projects related to the environment in which private entities carry out their activities. UNDP will continue to support projects aimed at improving living conditions in the border areas; facilitating the return of populations displaced by subversive activities to their places of origin; and formulating, inter alia, low-income housing programmes. UNDP will continue to support the debate on poverty eradication policies and fund-raising events

and coordinate their application in support of specific programmes and projects.

22. *Energy and environment.* UNDP will support Peru's actions to harness its tremendous energy potential more effectively, particularly as regards the design of energy strategies and the identification of non-polluting sources of energy for rural communities and small villages, where small-scale projects to promote tourism in historic places, ecotourism, small-scale agro-industry, the hotel business and craftsmanship can be formulated and implemented. UNDP will also support the conduct of baseline studies and national and regional policy-making for the establishment of an adequate sustainable development framework. UNDP will participate as well in international fund-raising and the preparation of proposals for financing projects on, respectively, the environment, the development of water basins and fauna conservation. UNDP will also support the implementation of in situ biodiversity conservation projects, particularly with regard to indigenous wild plants; the implementation of the binational project for the conservation of the Lake Titicaca ecosystem; and the implementation of projects to eliminate substances which deplete the ozone layer. UNDP will also support the elaboration of production expansion approaches in harmony with actions to prevent environmental degradation and help conserve Peru's biological diversity.

23. *Information and communication technologies.* UNDP will support the design and initial application of a strategy to expand the utilization of the Internet at the national level and will give priority to the installation of connections in schools and small villages in the country's interior. It will also support the establishment of Internet portals in the country's interior in order to support the development of local productive activities. The population's increased access to the Internet will bolster policies to enhance the transparency of public management. In general, measures to facilitate the country's integration in a globalized and interconnected economy will be supported. Support will also be given to State actions to reorganize the oversight agencies of communication services, in order to ensure adequate user services, reasonable rates and expanded coverage.

24. *Preventive measures against factors which are a threat to society: natural disasters and HIV/AIDS.* In order to preserve the social capital created by decades of national investments in public infrastructure, UNDP will support the design and implementation of a national strategy for natural disaster prevention and mitigation, including early warning measures to prevent the impact of disasters on public and private property and the loss of life as a result of natural phenomena (including earthquakes, mudslides, floods, volcanoes and "El Niño"). Support will be given to the development of maps showing the country's vulnerability to likely disasters, and the concept of land-use management will be promoted on the basis of sustainable urban centres. UNDP will support Government actions to formulate and mount AIDS prevention campaigns, particularly those targeting the lower-income population. UNDP will also support the active participation of various social agents in these campaigns, as a complement to the action of state entities, and will encourage greater support from international cooperation through thematic groups.

25. The UNDP Resident Representative, in his capacity as Resident Coordinator of the United Nations system for operational activities for development, will ensure the most effective use of the advantages of the United Nations and other international assistance agencies.

IV. Management arrangements

A. Execution

26. During the second country cooperation framework (2001-2003), the national execution arrangement will continue to be used, while not ruling out contributions from other agencies, particularly those of the United Nations system. UNDP will cooperate in determining which cases need specialized assistance or would benefit from the experience of other countries, using, inter alia, the mechanism of Technical Cooperation among Developing Countries (TCDC). UNDP will promote increased participation by grass-roots community organizations and non-governmental organizations in the execution of UNDP-assisted projects. UNDP considers that it would be ideal to have in each priority area one or two core programmes in which the desired results are clearly defined.

B. Monitoring and evaluation

27. UNDP deems it of particular importance to strengthen the design, monitoring and impact of the country cooperation framework and the projects comprising it. To that end, such mechanisms as the local project approval committees; substantive and mandatory project budget revisions; annual project audits; substantive project evaluations and assessments; and measurement of the level of the UNDP presence in development actions will continue to be used. Additionally, indicators to measure the progress in the programming areas of cooperation with Peru will be elaborated and applied.

28. The programme of cooperation with Peru will be evaluated at mid-term and upon completion. Both the operational aspects and the impact of the programme will be analysed in these evaluations.

C. Resource mobilization

29. UNDP will continue its efforts to raise funds to supplement those contributed by itself and the Government. UNDP also hopes to strengthen its relations with bilateral cooperation agencies and the international financial institutions in order to participate in the implementation of new programmes and projects.

30. Estimated resource mobilization for 2001-2003 is US$ 312.3 million, of which $2.3 million will be UNDP core resources and $310 million will come from other sources. The annex provides a breakdown of this estimation.

Annex

Resource mobilization target table for Peru (2001-2003)

Source	*Amount (In thousands of United States dollars)*	*Comments*
UNDP regular resources		
Estimated carry-over into 2001	923	Includes carry-over of TRAC 1, TRAC 2 and the earlier AOS allocations.
Target for resource assignment from the core 1.1.1	820	Assigned immediately to country.
Target for resource assignment from the core 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
Support for policy and programme development and for technical services	40	
Subtotal	**1 783**[a]	
UNDP other resources		
Government cost-sharing	200 000	
Third-party cost-sharing	90 000	
Funds, trust funds and other	20 000	
	of which:	
Global Environment Facility	20 000	
Subtotal	**310 000**	
Grand total	**311 783**	

Abbreviations: AOS = administrative and operational services; TRAC = target for resource assignment from the core.

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.